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Reallocation of Resources: Military Retirement (1)

COMMANDERS DIGEST

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DoD Study Group Report

New Military Retirement System Proposed

REALLOCATION OF RESOURCES

- FOUNDATION IS COMPETITIVE ACTIVE DUTY PAY
- OTHER COMPENSATION TOOLS
  - (1) ENLISTMENT BONUSES } AT INITIAL PROCUREMENT
  - (2) RETENTION INCENTIVES
    - -- SPECIAL PAY
    - -- INCENTIVE/HAZARDOUS DUTY PAY
    - -- SELECTIVE REENLISTMENT BONUSES
    - -- OFFICER CONTINUATION PAY

    } THROUGHOUT ENTIRE CAREER WHERE REQUIRED
  - (3) SEPARATION PAYMENTS
    - -- READJUSTMENT PAY
    - -- EQUITY PAY

    } AFTER 5 YOS AND UNTIL RETIREMENT ELIGIBILITY
  - (4) RETIREMENT BENEFITS
    - -- INCREASED MULTIPLIERS FOR LONG SERVICE
    - -- MODIFIED PAYMENTS FOR RETIREMENT BEFORE 30 YOS
    - -- NEW SURVIVOR BENEFIT PLAN

    } AFTER 20 YOS

RESULTS

- INCREASED FLEXIBILITY IN ATTRACTING AND RETAINING SELECTIVELY
- ACCEPTABLE PAYMENTS TO THOSE WHO MUST BE SEPARATED PRIOR TO RETIREMENT

Chart 1.

In March 1971, an Interagency Committee was appointed by the President to study the military retirement and survivor benefit system and to make recommendations for changes to that system. In July 1971, the Interagency Committee transmitted to the President its recommendations for changing, among other things, the military nondisability retirement system. Those recommendations were reviewed within the Department of Defense, and, on January 28, 1972, Secretary Laird established a DoD Retirement Study Group to evaluate the Interagency Committee recommendations and to recommend a course of action concerning changes

COMPLETE RETIREMENT INFORMATION COMING

Facts concerning the DoD Retirement Study Group's recommendations will be furnished to each Service member.

Included in the complete material to be distributed will be worksheets to allow Service members to relate the proposed changes to their individual circumstances.

INTERRELATIONSHIP BETWEEN ELEMENTS OF THE COMPENSATION SYSTEM

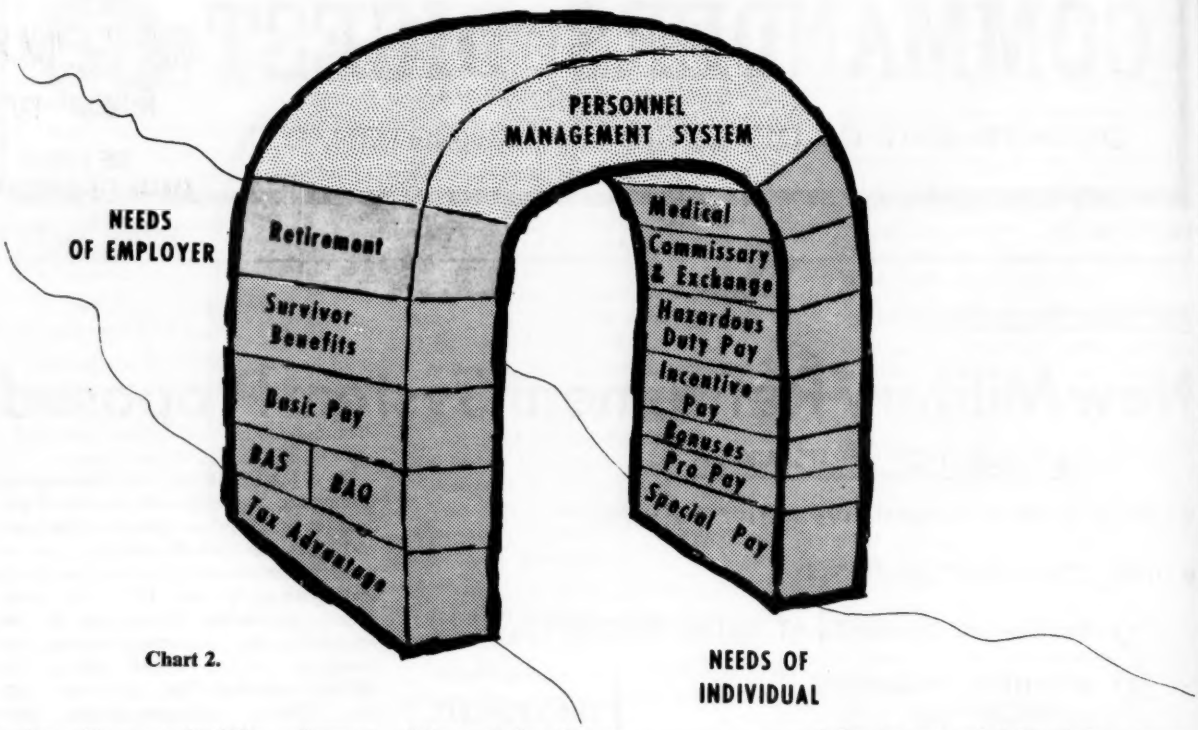

Chart 2.

to the military nondisability retirement system. On May 31, 1972, the DoD Retirement Study Group submitted its report to the Secretary. This issue of COMMANDERS DIGEST reviews the context in which recommendations were developed by the DoD Retirement Study Group and summarizes the recommendations of that Group.

COMMANDERS DIGEST

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An understanding of the framework within which the DoD Study Group worked is essential in gaining an understanding of the recommendations made. From the beginning, the DoD Retirement Study Group viewed the compensation system as comprised of a variety of elements of which the retirement system is one; the retirement system, however, was considered a very important element of the overall compensation system. The compensation system was viewed as a threshold, linking the needs of the individual, on the one hand, and the needs of the military employer on the other.

Combinations of Elements

Various combinations of elements of a compensation system could join to meet the needs of the individual and the needs of the employer, many of which would be satisfactory to the member. One compensation system, for example, may provide $.80 of the compensation dollar in pay and $.20 of the compensation dollar in fringe benefits; another system may provide $.70 of the compensation dollar in pay and $.30 in fringe benefits. The employer, also, would normally be indifferent to those systems since they both represent a dollar of labor cost. However, not all combinations may be satisfactory from the viewpoint of the employer whose unique conditions of service require specific consideration of the interrelationship among the elements in order to achieve the best supporting structure.

The interrelationship, the interlocking, the interdependence among the elements of the military compensation system require an investigation of the retirement system in this context. In fact, changes to the retirement system may require changes in other elements of the compensation system. Conversely, and perhaps more important, changes in other elements of the compensation system may quite possibly require changes to the retirement system. This

interrelationship was fundamental in terms of the DoD Study Group's consideration, and from this perspective, the retirement system was studied.

It was obvious that the compensation system had undergone considerable change in the past. Some of those changes had the effect of increasing the value of an element of compensation; some changes had the effect of decreasing the value of an element of compensation. However, the *net* result in the past has been a substantial increase in the total compensation paid to an individual Serviceman.

Beneficial Changes

The changes to the compensation system have been beneficial for the individual in some cases, for the force manager in some cases, and for both in other cases. The changes, for the most part, were not made without considerable study and analysis and were undertaken in an effort to improve the effectiveness of the military system. As the force structure changed and as the active military force grew larger to support the world-wide commitments of the Nation, the compensation and personnel management systems changed to reflect the new environment. Recent changes in the compensation system are indicative of these changes over time.

Chart Four presents past trends in some of the principal elements of compensation.

It shows that basic pay has increased 68 percent since 1968. The increase in the principal elements of military compensation can be compared to the general increases in wages in the economy over the same time period. Gross hourly earnings of non-supervisory employees on private nonagricultural payrolls have increased about 27 percent; professional/technical earnings are up 24 percent; and high-level executive salaries have increased about 21 percent. The increase in basic pay has been, in part, the result of a conscious effort to attain relatively competitive active duty pay rates; and today it can be said that military compensation, by pay grade, is relatively competitive with pay in the private sector.

In addition to increases in basic pay, there has been an upward adjustment in basic allowance for quarters (BAQ), as well as a significant increase in the amount of the reenlistment bonus payment.

Another Perspective

The increases in military pay can be viewed from another perspective: while the active duty force has decreased nearly 34 percent over the past four years, annual personnel-related costs have increased almost 24 percent in terms of current dollars (this is equivalent to a decrease of less than 17 per-

HISTORICAL BACKGROUND

- COMPENSATION SYSTEM IS NOT IMMUTABLE
- ELEMENTS OF THE COMPENSATION SYSTEM ARE CONTINUALLY CHANGING
  - SOME CHANGES INCREASE THE VALUE OF AN ELEMENT OF COMPENSATION
  - SOME CHANGES DECREASE THE VALUE OF AN ELEMENT OF COMPENSATION
  - THE NET RESULT FOR THE INDIVIDUAL HAS BEEN A SUBSTANTIAL INCREASE IN TOTAL COMPENSATION
- CHANGES HAVE BEEN BENEFICIAL
  - FOR INDIVIDUAL
  - FOR FORCE MANAGER

Chart 3.

PAST TRENDS IN COMPENSATION

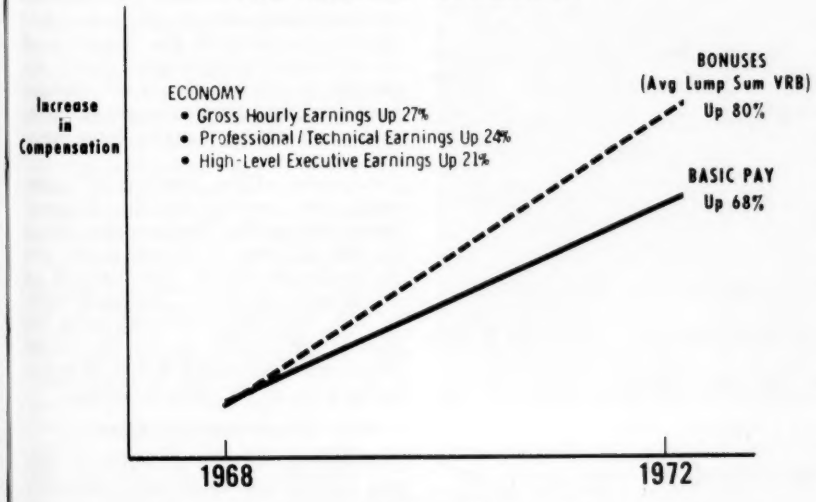

Chart 4.

cent in terms of constant dollars).

Prior to achieving relatively competitive active duty pay levels, it could be argued, compellingly, that a very liberal military retirement system was justifiable in order to provide deferred compensation to offset low active duty pay. However, when active duty compensation attained relatively competitive levels, the need to investigate the requirement to change the retirement system became clear; whether to change, and how much and to what degree a change is required is a matter of judgment.

In view of past trends in military compensation and proposals to change military compensation, it is clear that tremendous increases in total compensation have or will shortly occur. Competitive levels have been reached for each military pay grade. These competitive levels must be maintained. Currently, this is accomplished through automatic, statutory increases tied to the increases experienced in the private sector; the next increase is scheduled for January 1, 1973.

Recent Legislation

Legislation recently passed by the Congress and signed by the President will provide much-needed increased survivor protection for military retirees.

In addition to competitive pay levels, bonuses have been sought. The Uniformed Services Special Pay Act of 1972 would provide: an expanded enlistment bonus to provide incentive to enlist in the combat arms and other critical skills; a selective reenlistment bonus providing a cash payment to enlisted men of up to $15,000; continuation pay for officers of up to $4,000 for each year of continued service; and bonuses and special pay for medical officers.

Special pay and bonuses are being sought for lawyers and an extension of special pay for nuclear-qualified personnel is also being sought.

Transfer Required

In effect, through the continued study and conscious design of the military compensation system, resources are being allocated into active duty pay. The transfer of resources is required in order to increase the efficiency of the compensation system. As a result of this transfer, some change in the elements of the retirement system could logically be expected.

As a whole, the retirement system—like the compensation system—has changed significantly in the past. Chart Six outlines some of the provisions of the nondisability retirement system applicable to officers that have changed since the start of this century, primarily as a result of the changing force structure.

A review of the nondisability retirement laws enacted by the Congress during this century discloses that during the first 35 years a 30-year career was the *minimum* service that entitled an officer to be retired as a matter of right. In fact, the device of restricting the number who could be on the retired list at one time limited voluntary retirements even at 30 years of service.

Involuntary Retirement

Beginning in 1916, a series of laws was enacted that authorized involuntary retirement of officers in order to improve promotion flow or remove the

SUMMARY OF RECENT CHANGES AND PROPOSED CHANGES IN COMPENSATION

- ✓ COMPETITIVE ACTIVE DUTY PAY BY PAY GRADE
  - PAY INCREASE SCHEDULED FOR JANUARY 1, 1973
- ✓ IMPROVED SURVIVOR BENEFITS FOR RETIREES (ENACTED SEPTEMBER 21, 1972)
- ✓ SPECIAL PAY PACKAGE
  - EXPANDED ENLISTMENT BONUS
  - SELECTIVE REENLISTMENT BONUS
  - CONTINUATION PAY FOR OFFICERS
  - MEDICAL OFFICER BONUSES AND SPECIAL PAY
- ✓ SPECIAL PAY AND BONUSES FOR LAWYERS
- ✓ SPECIAL PAY FOR NUCLEAR-QUALIFIED PERSONNEL
- ■ RETIREMENT

Chart 5.

HISTORICAL BACKGROUND

OFFICERS

- MINIMUM OF 30 YOS REQUIRED FOR VOLUNTARY RETIREMENT (1900-1935)
  - INVOLUNTARY RETIREMENT ALLOWED AFTER 20 YOS (1916)
  - SOME INVOLUNTARY RETIREMENTS WITH AS LITTLE AS 7 YOS
- VOLUNTARY EARLY (15-29 YOS) RETIREMENT (1935)
  - DESIGNED TO ELIMINATE WW I "HUMP"
  - LATER RESTRICTED TO 20 YOS (1946-NAVY, 1948-ARMY/AF)

Chart 6.

unqualified. Although in most instances, 20 years of service was required, in several instances, involuntary retirement with as little as 7 years of service in the case of non-selected officers in the Navy and 10 years of service in the case of lesser qualified officers in the Army was authorized.

Voluntary retirement of Army officers with 15-29 years of service was authorized in 1935. That authority, designed to alleviate the World War I "hump," was repealed in 1948 when the present voluntary retirement authority for Army and Air Force officers with 20 years of active service (including 10 years of active commissioned service) was enacted. The Navy was given similar authority in 1946.

A similar revision in the provisions of the nondisability retirement system applicable to enlisted men has also occurred.

Army Enlisted Men, until 1945, were required to complete 30 years of active service for nondisability retirement. (Service in certain unhealthy or undesirable overseas assignments before 1912 was counted double in computing retirement eligibility.) In 1945, the current law authorizing retirement of Army and Air Force enlisted men after 20 years of service was enacted. (It is interesting that the 1945 statute required use of the last six months' average pay in computing retired pay. That was later modified to permit use of terminal pay for enlisted men.)

Navy and Marine Corps Enlisted Men can "retire" only after 30 years of active service plus service in the Fleet Reserve or Fleet Marine Corps Reserve. The equivalent of retirement for less than 30 years of service is achieved through transfer to the Fleet Reserve or Fleet Marine Corps Reserve with "retainer pay." Retainer pay is computed in the same manner as retired pay.

In 1916, Navy and Marine Corps enlisted men were authorized to transfer to the Fleet Reserve after 16 years of service with ⅓ of their basic pay; after 20 years of service with ½ of their based pay. In 1925, the 16 years of service authority was repealed for new entrants leaving only the 20 years of service authority for new entrants. Except for the change in formula from ½ of basic pay to 2½ percent times years of service times basic pay, the basic authority for transfer to the Fleet Reserve has remained basically unchanged since that time.

One further interrelationship, similar to the interrelationship within the compensation system, is important when considering the requirement to change the military retirement system.

New Program Advantages

1. Gradual transition spans more than 20 years.
   - Members with 20 or more years of service minimally affected.
   - Members on active duty with less than 20 years of service only partially affected. The more time under today's competitive active-duty pay scale, the more the affect of the new plan.
   - Only new entrants to active duty are fully under the plan.
2. Save-pay provision guarantees equity.
   - Today's levels of retired pay represent the floor; no one in the future will receive less. Most will receive significantly more.
3. Plan is necessarily complex.
   - The new plan is complex because of the gradual transition provision and the substantial efforts put forth to insure maximum benefits to all Service members—present and future.
4. Retirement system remains "free."
   - New plan avoids the burden of a contributory system for members on active duty today.
5. 20-year retirement remains.
   - The new plan retains 20-year retirement eligibility with an immediate annuity.
6. Equity and readjustment payments provided.
   - The new plan provides an equity payment for the first time to all members—officer and enlisted—who voluntarily leave active duty after 10 but before 20 years of service.
   - The new plan provides readjustment pay, for the first time, to all enlisted men and some officers who involuntarily leave active duty after 5 but before 20 years of service.
7. Increased multipliers benefit thousands.
   - The multiplier increases to 3 percent for each year of service after 24 (rather than 2½ percent).
   - 23,000 enlisted men and 14,000 officers presently on active duty stand to gain.
8. Survivor benefits protection available at low cost.
   - Low cost of the new survivor benefit plan significantly increases the value of retired pay.
   - Increased survivor protection offered at no cost to member on active duty with 20 or more years of service.

Chart 7-8.

Substantial Interrelationship

The DoD Study Group believed a substantial interrelationship existed between the compensation system—of which retirement is an important element—and the personnel management system. The elements of the compensation system can significantly affect the ability of the personnel manager to attract and retain the kinds and numbers of members required in an all-volunteer environment. Changes to the compensation system or a reallocation of resources within the compensation system can improve the efficiency of the personnel management system. The DoD Study Group referred to that key interrelationship frequently during its consideration of the requirement to change the military retirement system. It investigated the present and objective career structure of both the enlisted and officer force in order to determine the most effective means of maintaining an All-Volunteer Force capable of carrying out the mission of defense.

Charts Nine and Ten portray the interrelationship between the compensation and personnel management system. The graph presents a comparison of years of service versus the number of personnel under the present force and under a desired conceptual force. Under the present force, the initial input is high and tapers off rather rapidly. The profile contains many small humps and valleys and a large hump exists just prior to the 20-year point (largely the result of the Korean conflict). The desired pattern would more ideally carry people into an 8- to 12-year career, but then separate them or allow them to leave prior to retirement, retaining a smaller and more stable career force.

". . . The transfer of resources is required in order to increase the efficiency of the compensation system. . . .

". . . Changes to the compensation system or a reallocation of resources within the compensation system can improve the personnel management system. . . ."

—DoD Retirement Study Group

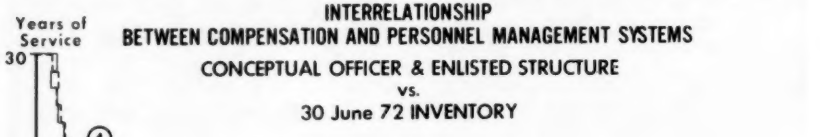

Chart 9.

Desired Force Profile

Through a reallocation of resources, the desired force profile can be gradually attained over an extended period of time:

- The foundation must be a competitive active duty pay system. This we have achieved.
- Other compensation tools are required, however, to provide the proper number of entrants on to active duty. They could be attained by providing enlistment bonuses as an attraction to shortage skill areas. The authority for an enlistment bonus in certain skill categories exists in present law, and the proposed Uniformed Services Special Pay Act of 1972 would extend that authority to include all critical skills.
- In order to obtain the retention desired to the 8 to 12 years of service points and beyond, the Services presently provide special pay for physicans, dentists, veterinarians and optometrists; continuation pay for physicians, dentists and nuclear-qualified submarine officers; and

incentive/hazardous duty pays. In addition, the proposed Uniformed Services Special Pay Act of 1972 would provide a Selective Reenlistment Bonus for enlisted men (replacing the present Regular Reenlistment Bonus and Variable Reenlistment Bonus) and an officer continuation payment.

- To achieve the desired career force, gradually, over an extended period of time, and to maintain that force at the desired level prior to 20 years of service, separation payments need to be provided. Payments under the present system are available only to certain categories of officers and a certain small category of enlisted reservists. These payments need to be modified and extended to all officers and enlisted men.
- A reallocation of benefits in the retirement system can be made to assist personnel management objectives for members who serve to retirement eligibility.

Modifications Required

The DoD Study Group believes that modifications are required to provide a system of separation payments that will support personnel management goals. Further, the DoD Study Group believes that there is a requirement to modify the military retirement system in order to make that system more effective as a management tool.

The DoD Study Group concluded, after its initial study, that the compensation system must satisfy three principal objectives. Competitive pay must be maintained by pay grade. Further, selective retention incentives must be provided, where required, in addition to the competitive pay by pay grade to insure that military compensation is competitive by skill category. These two objectives are essential in attracting and retaining the kinds and number of personnel required. The compensation system must also support the goals of the personnel management system.

However, the provisions of the present retirement system could quite possibly hamper efforts to achieve force management goals; the rising costs of the present retirement system could quite possibly hamper efforts to allocate compensation resources effectively. Force management objectives must be supported, in part, by the provisions of the retirement system. Further, rising retirement costs will make efficient allocation of resources more difficult, especially in terms of increased benefits.

Faced with this problem, the DoD Study Group concluded that the retirement system should be studied to determine if it is satisfactorily supporting the goals of the personnel management system and compensation system.

REALLOCATION OF RESOURCES

- COMPENSATION TOOLS (In Addition to Competitive Pay)
  - ① ENLISTMENT BONUSES
  - ② RETENTION INCENTIVES
    - -- SPECIAL PAY (present)
    - -- INCENTIVE/HAZARDOUS DUTY PAY (present)
    - -- SELECTIVE REENLISTMENT BONUSES
    - -- OFFICER CONTINUATION PAY
  - ③ SEPARATION PAYMENTS (between 5-20 years)
    - -- MODIFICATIONS ARE REQUIRED TO ATTAIN DESIRED FORCE DISTRIBUTION BY GRADE AND YEARS OF SERVICE
  - ④ RETIREMENT BENEFITS (after 20 years)
    - -- MODIFICATIONS ARE REQUIRED TO INCREASE ATTRACTIVENESS OF LONG SERVICE (30 years plus) VERSUS MID-CAREER RETIREMENT

Chart 10.

FINDINGS OF INITIAL STUDY

OBJECTIVES

* MAINTAIN COMPETITIVE PAY BY PAY GRADE
* PROVIDE ADDITIONAL SELECTIVE RETENTION INCENTIVES WHERE REQUIRED TO BE COMPETITIVE
* INSURE THAT COMPENSATION SYSTEM SUPPORTS PERSONNEL MANAGEMENT GOALS

PROBLEM

* THE PROVISIONS OF THE PRESENT RETIREMENT SYSTEM MAY HAMPER EFFORTS TO ACHIEVE FORCE MANAGEMENT GOALS
* THE RISING COSTS OF THE PRESENT RETIREMENT SYSTEM MAY HAMPER EFFORTS TO ALLOCATE RESOURCES EFFECTIVELY

CONCLUSION

* RETIREMENT SYSTEM SHOULD BE STUDIED

Chart 11.

DoD Study Group Report

Nondisability Retirement: Recommendations

The remainder of this article discusses the DoD Study Group's recommended modifications to the military nondisability retirement system. It should be kept in mind that these recommendations were made in the context of changes to and interrelationships between the overall military personnel management and compensation systems.

Present System Must be Studied

Although a consideration of the requirement to change the present retirement system is needed as a result of the substantial reallocations of resources within the compensation system and as a result of the recognition of the expansive changes possibly resulting from adoption of proposed objective personnel management systems, such considerations do not demonstrate that a change in the retirement system is required. The effectiveness of the present retirement system must be studied to determine if such a change is required. During such a study, the DoD Study Group found defects in the present nondisability retirement system, both as an element of the compensation system and as an element of the personnel management system.

One of the most significant defects of the present nondisability retirement system is the lack of vesting of retirement benefits before 20 years of service. Today, a member who serves for less than 20 years of service and who separates before achieving retirement eligibility receives no equity from the system. This is contrary to the practice of many liberal retirement plans in the private sector and the retirement plan of the Federal Civil Service system. This lack of vesting is especially an inequity in the military system because only 10 percent of those who enter military service continue on to retirement.

Because the retired pay of a member under the present retirement system is based on pay he receives on the date of retirement, individuals who can select the date of their retirement can significantly increase the value of their retired pay (by waiting out a pay raise, for example) compared to those individuals who are not able to select the date of their retirement such as mandatory or disability retirees.

Annuities Not Competitive

Compared to annuities available to members of other liberal retirement systems, the annuities available to military members with long service are not competitive.

The DoD Study Group not only believes that compensation for service should be paid for when that service is rendered but, further, that that compensation should be balanced against an equitable and competitive retirement system. On the one hand, a retirement system that is too liberal is unfair to the taxpayers, especially if other elements of the compensation system are relatively competitive; on the other hand, a retirement system that is less than competitive is unfair to the military retiree because it will not adequately satisfy the objectives of a retirement system. A delicate balance exists between paying for service when it is rendered and insuring an equitable and competitive retirement system.

There are also defects in the present nondisability retirement system as an element of the personnel management system. It is an inefficient method of attracting members into the military and of retaining members with short service. It is clear that a cash payment today is more effective—and more efficient—as a retention or incentive device than a payment promised 20 years in the future. This is not to say that the military retirement system is not an

DEFECTS IN THE PRESENT NONDISABILITY RETIREMENT SYSTEM

✱ AS AN ELEMENT OF COMPENSATION SYSTEM

- Lack of vesting before 20 years of service
- Terminal pay inequity
- Less than competitive annuities for members with long service
- Compensation for service when rendered balanced against equitable and competitive retirement system

✱ AS AN ELEMENT OF PERSONNEL MANAGEMENT SYSTEM

- Inefficient method of retention for short service personnel
  Cash today more effective than payment 20 years in the future
- Lack of appropriate payment for separation short of retirement
- Lack of proper incentive to continue on active duty after 20 years of service

Chart 12.

important and required compensation element; however, the DoD Study Group believes that the ability to retire with an immediate annuity of some amount after 20 years of service is the principal attraction and retention aspect of the retirement system.

Payment Short of Retirement

The lack of an appropriate payment for separation short of retirement prohibits the force manager, in many instances, from separating, before 20 years of service, those members who are no longer required. If such a payment were available, members could be separated short of retirement eligibility because they would receive some payment from the military retirement system for the service they performed and to assist in their transition into the non-military sector.

The present retirement system also demonstrates a lack of proper incentive to continue on active duty after 20 years of service. The formula for computing retired pay does not increase benefits proportional to increased years of service; in other words, each additional year of service does not result in total retired pay that is increased by a proportional amount. Further, the older a member is when he starts to look for a second career, the proportionately less are his opportunities to find a good second career income. This combination tends to discourage personnel from continuing on active duty much after attaining 20 years of service.

Gradual Transition

As a result of these defects in the present retirement system, and considering the magnitude of the revisions in the other elements of the compensation system and personnel management system, the DoD Study Group recommends a change to the nondisability retirement system. However, it should be stressed at this point that any change to the military retirement system recommended by the DoD Study Group would be accomplished very gradually and with the strongest assurances to members on active duty that the equity held in the present system would be maintained. Therefore, before discussing the details of the recommended changes themselves, it is useful to understand two of the key features of the DoD Study Group's recommendations: the transition mechanism and save-pay provisions. The transition mechanism will gradually revise the provisions of the present system to conform to the recommendations of the DoD Study Group; this transition will not be complete for 20 years. The save-pay provision will maintain the equity that a future retiree has in the present retirement system.

CONCEPTS UNDERLYING THE DESIGN OF THE TRANSITION MECHANISM

- AMOUNT OF CHANGE TO THE RETIREMENT SYSTEM IS DIRECTLY RELATED TO THE AMOUNT OF TIME SPENT UNDER RELATIVELY COMPETITIVE PAY SCALES
  - MEMBERS WITH LONG SERVICE (OVER 20 YEARS) WOULD BE MINIMALLY AFFECTED
  - NO ONE ON ACTIVE DUTY AT IMPLEMENTATION WOULD BE FULLY UNDER THE PROVISIONS OF THE REVISED SYSTEM
  - ONLY NEW ENTRANTS WOULD BE FULLY UNDER THE PROVISIONS OF THE REVISED SYSTEM
- BOTH TOTAL ACTIVE DUTY AND TOTAL RETIREMENT COMPENSATION WILL BE SUBSTANTIALLY LARGER IN THE FUTURE FOR ALL RETIREES
  - PROPORTIONALLY, MORE COMPENSATION WILL BE PAID TO THE MEMBER WHILE HE IS ON ACTIVE DUTY

Chart 13.

Chart 13 describes the concept under which the transition provision recommended by the DoD Study Group was designed. The concept directly relates the attainment of relatively competitive pay to changes to the retirement system.

For those with 20 or more years of service on the date of implementation, almost no time is spent under relatively competitive pay scales, and consequently, little change will occur in the provisions of the present retirement system. Those who spend only part of their career under relatively competitive pay scales will be affected by the transition provision to the extent necessary to ensure that the period of time spent under less than relatively competitive pay scales results in the proportionate application of the provisions of the present retirement system. For those members who serve nearly their entire career under relatively competitive pay scales, the proposed retirement system will be almost, although not fully, effective. New entrants who spend their entire career under relatively competitive pay scales will be unaffected by the transition provision and the change to the provisions of the retirement system will be fully applicable.

COMPLETE RETIREMENT INFORMATION COMING

Facts concerning the DoD Retirement Study Group's recommendations will be furnished to each Service member.

Included in the complete material to be distributed will be worksheets to allow Service members to relate the proposed changes to their individual circumstances.

SAVE PAY PROVISION

* A MEMBER WHO RETIRES IN THE FUTURE WILL BE GUARANTEED

AN ANNUITY THAT IS AT LEAST AS LARGE AS THE CPI ADJUSTED

ANNUITY OF A SIMILAR MEMBER WHO RETIRED BEFORE HIM

HOW?

Increasing the retirement multipliers for retirees with over 24 years of service

- PRESENT SYSTEM
  - 2-1/2% per year of service up through 30 years of service (Maximum, 75% at 30 years of service)
- RECOMMENDED SYSTEM
  - 2-1/2% per year of service up through 24 years of service
  - 3% per year of service for 25 through 30 years of service (Maximum, 78% at 30 years of service)

HOW ?

Three types of annuities would be available

- PRESENT SYSTEM
  - A member retiring with 20 or more years of service receives one type of annuity throughout his retired lifetime
- RECOMMENDED SYSTEM
  - A retiree with 30 or more years of service (full career) would receive a Full Career Annuity
  - A retiree with less than 30 years of service at retirement would receive:
    - An Early Retirement/Immediate Annuity initially, and
    - An Increased Annuity when they would have reached 30 years of service

Chart 14.

Substantially Larger Compensation

Regardless of the degree to which the revised system is applicable to the member, both total active duty and total retirement compensation will be substantially larger in the future for all retirees. The revised system recommended by the DoD Study Group will allocate more compensation to the member while he is on active duty and proportionally less while in retirement.

The total will be significantly larger than the compensation paid to similar members who retired before the revision to the retirement system.

Chart 14 presents the save-pay provisions considered essential by the members of the DoD Study Group. All members retiring in the future will be guaranteed an annuity at least as large as the CPI-adjusted amount of a similar member (same grade and length of service) who retired before him. As a result of this provision, a member can do no worse, in terms of his retired pay, by remaining on active duty, and in most cases, his retired pay will increase as a result of longer service or promotions.

An example is useful. Consider an E-5 with 15 years of service on the date of enactment who eventually retires as an E-8 with 24 years of service; he would be guaranteed at least the amount of retired pay of any other E-8 with 24 years of service who retired before him.

Again, it is important to stress that both the transition mechanism and save pay provision for changing the retirement system are essential elements—in fact, perhaps the most key elements—of the changes recommended by the DoD Study Group. Each recommendation of the DoD Study Group is presented next, and each should be evaluated in the context of the transition mechanism and save-pay provision.

Retirement Multipliers

The first recommendation will increase retirement multipliers for members who retire with over 24 years of service. Under the present system, retired pay is computed based on 2½ percent of basic pay for each year of service up through 30 years of service. This results in a maximum multiplier of 75 percent of basic pay for 30 years of service.

Under the DoD Study Group recommended system, the multiplier would remain the same up through 24 years of service—2½ percent of basic pay for

each year of service. A new multiplier of 3 percent of basic pay for each year of service (instead of 2½ percent would be applied for years of service 25 through 30. A new maximum of 78 percent of basic pay at 30 years of service would be reached.

Although the vast majority of members retire before 25 years of service, this recommendation will insure an annuity that is competitive with the annuities provided by other liberal employers. Presently, there are nearly 23,000 enlisted men and 14,000 officers with 25 or more years of service who will benefit from this recommendation.

Three types of annuities will be available under the recommended system. Under the present system, a member retiring with 20 or more years of service receives one type of annuity throughout his retired lifetime.

Full Career Annuity

Under the recommended system, a member retiring with 30 or more years of service (a full career) would receive a "Full Career Annuity." A member retiring with less than 30 years of service would receive an "Early Retirement/Immediate Annuity," initially, and an "Increased Annuity" when he would have reached 30 years of service had he remained on active duty.

Under the recommended system, members who retire with 30 or more years of service would receive a Full Career Annuity throughout their lifetime based on a multiplier of 78 percent.

Members who retire with less than 30 years of service would receive an Increased Annuity at the point they would have reached 30 years of service had they remained on active duty. The Increased Annuity would be based on a multiplier equal to 2½ percent for each year of service through 24 plus 3 percent for each year of service, 25 through 29. An Early Retirement/Immediate Annuity would be paid during the years that a member retired short of a full career (30 years of service). This Early Retirement/Immediate Annuity would be based on a multiplier 15 percentage points less than the multiplier for an Increased Annuity.

The graph at the bottom of Chart 15 presents the relationship between the Early Retirement/Immediate Annuity and the Increased Annuity. For example, if a member had 20 years of service

APPLICATION OF RECOMMENDATION

- **RETIREES WITH 30 OR MORE YEARS OF SERVICE WOULD RECEIVE A FULL CAREER ANNUITY BASED ON MULTIPLIER EQUAL TO 78%**
- **RETIREES WITH LESS THAN 30 YEARS OF SERVICE AT RETIREMENT WOULD RECEIVE:**
  - **An Increased Annuity at the point they would have reached 30 years of service based on:**
    - **2-1/2% per year of service, 20 through 24**
    - **3% per year of service, 25 and over**
  - **An Early Retirement/Immediate Annuity based on multiplier 15 percentage points less than multiplier for Increased Annuity from retirement until they would have reached 30 years of service**

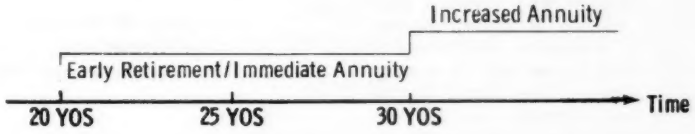

Chart 15.

METHOD OF TRANSITION

- FORMULA FOR MEMBERS WITH LESS THAN 20 YOS AT IMPLEMENTATION

$$\frac{\text{20 YOS - YOS at implementation}}{\text{20 YOS}} = \text{Transition Factor}$$

- APPLICATION
  - Member retires 10 years after implementation with 23 YOS (Multiplier for increased annuity = 57.5%)
  - He, therefore, had 13 YOS at implementation
    - Transition % = $15\% \times \frac{20 - 13}{20} = 5.25\%$
    - Multiplier for early retirement/immediate annuity = 57.5-5.25 = 52.25%
- EXAMPLE [1/]
  - E-7 with 23 YOS retires 10 years after implementation
    - Early retirement/immediate annuity = $631.62
    - Increased annuity = $695.08
    - Retired pay today = $429.35 (CPI adjusted = $515.22)

1/ Assumes basic pay increases 5% per year; CPI increases 1.5% per year

Chart 16.

when he retired, he would receive 35 percent of basic pay until he reached 30 years of service and then receive 50 percent of basic pay for the rest of his life.

Transition Mechanism

The above description applies only after the recommendation is fully implemented which will not occur for 20 years. Prior to that time, the transition mechanism is operative and provides the method for a gradual change from the present system to the recommended system.

Charts 16 and 17 present the method of transition as it applies to the Early Retirement/Immediate Annuities for members who retire with less than 30 years of service. The Early Retirement/Immediate Annuity provision that is applicable to members who have less than 20 years of service at implementation would use a transition factor—which would not result in the full 15 percent differential between the Early Retirement/Immediate Annuity and the Increased Annuity. This transition factor would be calculated by subtracting the number of years of service the individual had at implementation from 20 years of service and dividing the difference by 20 years of service.

In effect, the point in time when a member reaches 20 years of service will determine the transition factor. Even if he continues on active duty after reaching 20 years of service, his transition factor will be fixed.

A member with 20 or more years of service on the date of implementation would not be affected at all by this provision. Those members with 0 to 20 years of service on the date of implementation would be affected to some extent by the transition method. Those members who enter active duty after the date of implementation would be fully affected by the provisions of the recommended retirement system, and the method of transition would not apply.

An application is useful in understanding the transition provision. Assume a member retires 10 years after implementation with 23 years of service (his multiplier for the Increased Annuity, in this case would be 57.5 percent). Such a member had 13 years of service at implementation; and therefore, his multiplier for the Early Retirement/Immediate Annuity would be based on

METHOD OF TRANSITION

- FORMULA FOR MEMBERS WITH LESS THAN 20 YOS AT IMPLEMENTATION

$$\frac{\text{20 YOS - YOS at implementation}}{\text{20 YOS}} = \text{Transition Factor}$$

- APPLICATION
  - Member retires 10 years after implementation with 23 YOS (Multiplier for Increased Annuity = 57.5%)
  - He, therefore, had 13 YOS at implementation
    - Transition % = $15\% \times \frac{20-13}{20} = 5.25\%$
    - Multiplier for Early Retirement/Immediate Annuity = 57.5-5.25 = 52.25%
- EXAMPLE [1/]
  - O-5 with 23 YOS retires 10 years after implementation
    - Early Retirement/Immediate Annuity = $1334.28
    - Increased Annuity = $1468.35
    - Retired Pay today = $907.01 (CPI adjusted = $1088.41)

1/ Assumes basic pay increases 5% per year; CPI increases 1.5% per year

Chart 17.

METHOD OF TRANSITION

- RELATES ATTAINMENT OF RELATIVELY COMPETITIVE ACTIVE DUTY PAY TO CHANGES IN THE RETIREMENT SYSTEM
- EFFECT ON VARIOUS MEMBERS
  - Members with over 20 years of service at implementation
    - Early retirement/immediate annuity feature not applicable
    - Receive increased multipliers if applicable
  - Members on active duty with less than 20 years of service
    - Early retirement/immediate annuity feature partially operative for members who retire with less than 30 years of service
    - Gradual transition spanning 20 years
  - New entrants after implementation
    - Early retirement/immediate annuity feature fully operative for members who retire with less than 30 years of service
- A MEMBER WHO RETIRES UNDER THE REVISED SYSTEM WILL BE ASSURED AN ANNUITY AT LEAST AS LARGE AS THE CPI ADJUSTED ANNUITY OF A LIKE MEMBER WHO RETIRED BEFORE HIM

Chart 18.

15 percent—that's the full differential—times the transition factor (in this case, 20 years of service minus 13 years of service at implementation divided by 20 years of service). In other words, his transition percent would be 5¼ percent. His multiplier for the Early Retirement/Immediate Annuity would be his multiplier for the Increased Annuity minus the transition percent, or 5½ percent.

Dollar Amount Terms

In terms of a dollar amount, the Early Retirement/Immediate Annuity of an O-5 with 23 years of service who retires 10 years after implementation would be about $1,334 per month using the transition mechanism and assuming basic pay increases of 5 percent per year. His Increased Annuity received after he would have reached 30 years of service would be $1,468. His retired pay, today, if he were retired would be only $907 (or about $1,088 in 10 years, assuming the CPI increases 1.5 percent per year). An E-7 with 23 years of service who retires 10 years after implementation would have an Early Retirement/Immediate Annuity of $632 until the point he would have reached 30 years of service, and an Increased Annuity of about $695, compared to retired pay today for an E-7 with 23 years of service of $429 (or about $515 in 10 years, if CPI adjusted).

AVERAGING

PRESENT SYSTEM

RETIREMENT MULTIPLIERS ARE APPLIED TO THE MEMBER'S TERMINAL BASIC PAY

RECOMMENDED SYSTEM

MOVE MILITARY RETIREMENT SYSTEM TO HIGH-1 AVERAGE

TRANSITION: GRADUALLY EXPAND BASE USED TO CALCULATE THE ANNUITY; ONLY CONSIDER BASIC PAY EARNED AFTER IMPLEMENTATION

Chart 19.

Chart 18 again points out that the transition mechanism relates the attainment of relatively competitive active duty pay to changes in the retirement system and summarizes the effect of the method of transition on various individuals. The Early Retirement/Immediate Annuity feature is not applicable to members with over 20 years of service at implementation. They do receive increased multipliers, however, if they retire with over 24 years of service. The Early Retirement/Immediate Annuity feature is partially operative for those on active duty on the date of implementation and who retire with less than 30 years of service. It is a gradual transition, and it spans a full 20 years. Only new entrants onto active duty after implementation will experience the full 15 percent differential, and then, only if they retire with less than 30 years of service.

In all cases, however, it must be stressed that a member who retires under the revised system will be assured an annuity at least as large as the CPI-adjusted annuity of a similar member who retired before him.

Averaging Used In Calculating

The DoD Study Group also recommends that averaging be used in calculating the member's retirement annuity. Under the present system, retirement multipliers are applied to the member's terminal basic pay.

Under the recommended system, the military retirement system would move gradually to a high-1 average by expanding the base used to calculate the retirement annuity.

There is a transition mechanism also associated with the recommendation.

INTEGRATION OF MILITARY AND SOCIAL SECURITY RETIREMENT BENEFITS

PRESENT SYSTEM

- MILITARY AND SOCIAL SECURITY RETIREMENT BENEFITS ARE UNCOORDINATED. REPRESENT DUPLICATION OF BENEFITS BASED ON SAME PERIOD OF SERVICE.

RECOMMENDED SYSTEM

- THE SOCIAL SECURITY RETIREMENT BENEFIT PAID TO THE RETIREE SHOULD BE INTEGRATED WITH THE MILITARY RETIREMENT ANNUITY AT AGE 65
- THE OFFSET SHOULD BE ONE-HALF OF THE SOCIAL SECURITY BENEFIT ATTRIBUTABLE TO MILITARY SERVICE. THE ONE-HALF OFFSET RECOGNIZES THAT THE MEMBER AND THE GOVERNMENT CONTRIBUTE EQUAL AMOUNTS TO SOCIAL SECURITY

Chart 20.

Only basic pay earned after implementation would be considered in the average. The member who retires immediately after implementation will essentially have his retired pay computed based on terminal pay. During the year following implementation, the averaging will be done on less than a yearly basis taking into account only basic pay earned between implementation and retirement. After that year, generally, the last year prior to retirement will be considered for use in calculating the average.

Social Security Integrated

The DoD Retirement Study Group recommends that military and social security retirement benefits be integrated. Under the present system, military and social security retirement benefits are uncoordinated. As a result, the effect of the present system is to provide duplication of benefits based on the same period of service.

Under the recommended system, the social security retirement benefit paid to the retiree would be integrated with the military retirement annuity when the member reaches age 65. This would be accomplished by offsetting one-half of the social security benefit attributable to military service. This offset recognizes that the member and the Government contribute equal amounts to social security. It is important to note that only the social security benefit attributable to military service is considered: No offset would be taken for a social security benefit resulting from a member's social security coverage before he entered the military, or after he left the military, or while on active duty and participating in other covered employment.

An example is useful in describing how social security attributable to military service is defined.

Chart 21 compares the methods of calculating the *actual* social security retirement benefit and the social security retirement benefit *attributable to military service*.

The upper portion of the chart summarizes the method used by the Social Security Administration to calculate the *actual* social security benefit to which a covered member is entitled. In this example, the member enters the military at age 21, spends 20 years in the military and 24 years in non-Federal covered employment after military retirement. Further, the member's actual total military covered earnings equal $75,000 and his total civilian covered earnings equal $150,000. The higher civilian covered earnings are not unusual because the maximum covered wage and the individual's earnings both increase over time. In fact, the total covered civilian earnings in this example are probably lower than what they would actually be.

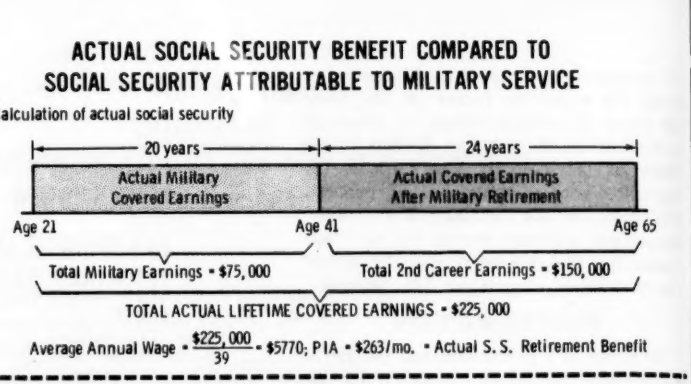
ACTUAL SOCIAL SECURITY BENEFIT COMPARED TO
SOCIAL SECURITY ATTRIBUTABLE TO MILITARY SERVICE
• Calculation of actual social security
20 years
24 years
Actual Military Covered Earnings
Actual Covered Earnings After Military Retirement
Age 21
Age 41
Age 65
Total Military Earnings = $75,000
Total 2nd Career Earnings = $150,000
TOTAL ACTUAL LIFETIME COVERED EARNINGS = $225,000
Average Annual Wage = $225,000/39 = $5770; PIA = $263/mo. = Actual S.S. Retirement Benefit
• Calculation of social security attributable to military service
Actual Military Covered Earnings
No Social Security Covered Earnings
Age 21
Age 41
Age 65
Total Military Earnings = $75,000
Assumed 2nd Career Earnings = $0
TOTAL ASSUMED LIFETIME COVERED EARNINGS = $75,000
Average Annual Wage = $75,000/39 = $1920; PIA = $138/mo = S.S. Retirement Benefit Attributable to Military Service

Chart 21.

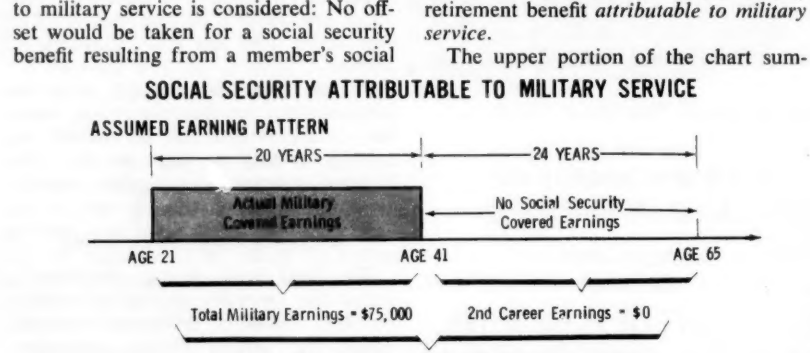
SOCIAL SECURITY ATTRIBUTABLE TO MILITARY SERVICE
ASSUMED EARNING PATTERN
20 YEARS
24 YEARS
Actual Military Covered Earnings
No Social Security Covered Earnings
AGE 21
AGE 41
AGE 65
Total Military Earnings = $75,000
2nd Career Earnings = $0
TOTAL ASSUMED LIFETIME COVERED EARNINGS = $75,000
Average Annual Wage = $75,000/39 = $1920 ; PIA = $138/mo. = S.S. Retirement Benefit
TRANSITION
ASSUME MEMBER RETIRES ONE YEAR AFTER IMPLEMENTATION
OFFSET AT AGE 65 = $138 X 1/2 X 1/20 = $3.45/mo.

Chart 22.

Average Annual Earnings

Average annual earnings are computed next. This is done by throwing out of the calculation the 5 low-earnings years and dividing the total lifetime covered earnings remaining by the remaining number of years elapsed from age 21 to age 65. In this example, the total lifetime covered earnings would be $225,000 and the total number of covered years would be 39 (44 minus 5 low years). The average annual wage in this case is about $5,770.

All social security benefits are based on the Primary Insurance Amount (PIA).

For example, the social security retirement benefit equals the PIA; the payment to a surviving widow after age 62 equals 82.5 percent of the PIA. The PIA is determined from a table relating the average annual wage to the PIA. In this case, the PIA, and consequently, the actual social security retirement benefit, would be $263 per month.

This is the social security benefit the retiree in the example would actually receive at age 65. This is *not* the social security attributable to military service, however. Determination of that amount requires a similar calculation, but using an assumed earning pattern. This is portrayed in the lower portion of the chart.

For this calculation, it is assumed that the member had no social security covered earnings other than those received as a result of his active duty. In this example, the member's total military covered earnings are $75,000. His civilian covered earnings are assumed to be zero. Therefore, his assumed total lifetime covered earnings for the purpose of this calculation are $75,000.

The average annual wage is calculated as before by dividing total lifetime covered earnings (throwing out the 5 low years) by the total number of years elapsed from age 21 to age 65 (throwing out 5 years). In this example, his average annual wage is $1,920.

One-Half Offset

This results in a PIA of $138 and, consequently, in a social security retirement benefit attributable to military service of $138 per month. If the recommendation were fully implemented, $69—one-half of the social security benefit attributable to military service—would be offset from the member's military retired pay at age 65. Of course, the member would receive his actual social security retirement benefit. In other words, the member would receive an amount equal to his full military retired pay—part from social security—*plus* $194 ($263 – $69 = $194) —from social security.

However, as in the case of the provisions for averaging and the new annuity system, a transition mechanism is applicable to the recommendation. The transition mechanism in this provision operates by taking the ratio of the number of years of service after implementation to the total number of years of service and multiplying that ratio by one-half of the social security attributable to military service. In this example, if we assume the member retires one year after implementation, his offset at age 65 will be $138 times one-half times the transition factor—in this case, 1 divided by 20. The offset at age 65 would be about $3.45 per month. This is a very gradual transition, and integration of social security and military retired pay will not be fully effective for over 30 years.

The DoD Study Group recommends payments to members who separate before attaining retirement eligibility. Under the present system, members

HOW?

Payments to members who separate before attaining retirement eligibility

- PRESENT SYSTEM
  - Members separating voluntarily before 20 years of service receive no equity for their service.
  - Only certain categories of officers who are involuntarily separated receive a readjustment payment. All other officers and all enlisted men receive no payment.
- RECOMMENDED SYSTEM
  - Voluntary separatees with 10 or more years of service
    -- Equity payment
      •• Deferred annuity at age 60 (2-1/2% per year of service)
  - Involuntary separatees with 5 or more years of service
    Readjustment payment
      •• 5% of final, annual basic pay times years of service
    -- PLUS equity payment
      •• Choice of either:
        · Deferred annuity at age 60 (2-1/2% per year of service)
        · 5% of final, annual basic pay times years of service
    -- Save pay provision for members presently on active duty who would have been eligible for readjustment pay under the present plan.

Chart 23.

HIGHLIGHTS OF RECOMMENDED PLAN

- INCREASE MULTIPLIER FROM 2-1/2% TO 3% FOR 25 THROUGH 30 YEARS OF SERVICE
- PROVIDE EARLY RETIREMENT/IMMEDIATE ANNUITY FOR THOSE MEMBERS WHO RETIRE WITH LESS THAN 30 YEARS OF SERVICE; PROVIDE INCREASED ANNUITY AT THE TIME THEY WOULD HAVE REACHED 30 YEARS OF SERVICE
- USE HIGH-1 AVERAGE
- INTEGRATE MILITARY AND SOCIAL SECURITY RETIREMENT ANNUITY AT AGE 65
- PROVIDE PAYMENT TO MEMBERS WHO SEPARATE BEFORE REACHING RETIREMENT ELIGIBILITY
  - Voluntary separatees - 10 or more years of service
    - Equity payment (deferred annuity)
  - Involuntary separatees - 5 or more years of service
    - Readjustment payment (lump sum)
    - Equity payment (lump sum or deferred annuity)
- TRANSITION AND SAVE PAY PROVISIONS

Chart 24.

separating voluntarily before 20 years of service receive no equity for their service. Only certain categories of officers who are involuntarily separated receive a readjustment payment. All other officers and all enlisted men receive no payment.

Voluntary Separatees

Under the recommended system, a *voluntary separatee* with 10 or more years of service would be eligible for an equity payment. This would be a deferred annuity at age 60 equal to 2½ times high-1 basic pay times years of service. The high-1 basic pay would be CPI-adjusted until age 60 and the annuity CPI adjusted thereafter. An *involuntary separatee* with five or more years of service would be eligible for a readjustment payment equal to five percent of final, annual basic pay times years of service *plus* an equity payment. In the case of the involuntary separatee, the individual could have an equity payment in the form of a deferred annuity at age 60 (similar to the voluntary separatee) or an additional payment of five percent of final, annual basic pay times years of service. In the case of the involuntary separatee, a save-pay provision would be applicable for members presently on active duty if they would have been eligible for readjustment pay under the present system; they would receive the larger of separation payment to which they are entitled under the present system, or the readjustment payment to which they are entitled under the recommendation.

Principal Elements

Chart 24 summarizes the principal elements of the recommended plan:

- An Early Retirement/Immediate Annuity for those members who retire with less than 30 years of service, and an Increased Annuity when they would have reached 30 years of service;
- Use of high-1 averaging instead of a terminal basic pay;
- Integration of military and social security retirement benefits at age 65;
- Provisions for payments to voluntary and involuntary separatees; and, most important, and two of the key elements of the recommended plan; and
- Transition and save-pay provisions applicable in all those cases where a possible diminution of benefits could occur.

A reallocation of resources among compensation tools is essential in attaining the career structures desired within the Department of Defense. Chart 1 summarizes the interrelationship between compensation and personnel management systems. The present compensation system, with its relatively competitive active duty pay, enlistment bonuses, retention incentives, separation payments and retirement benefits, would be modified to provide better enlistment and retention incentives, better payments to members at separation, and a retirement system that assists in maintaining the desired force structure after retirement eligibility:

- The enlistment and retention incentives that have been proposed by the Department of Defense will assist in attracting the number of members required and in retaining those members throughout their entire careers.
- The DoD Study Group recommendations would provide modifications to the separation payment. The change provides an equitable payment to those members who serve past their initial obligation but terminate their service before reaching retirement eligibility.
- The DoD Study Group alternative would also modify the retirement benefits to make longer service more attractive. The Study Group does not envision retaining more members for a longer career; however, it does believe that the retirement system should provide incentive for the member to desire to stay. The retirement system modified in this manner would improve the force manager's ability to selectively retain those members with the most desirable skills. It investigated various methods of designing a retirement system to accomplish this objective. The system could decrease benefits for short service, increase benefits for long service, or do both simultaneously. The Study Group chose the latter course, because, to achieve the desired effect, only increasing benefits for long service would result in an overly liberal system; conversely, only decreasing benefits for short service would result in an overly penalizing system for members with short service. Making less substantial modifications in both benefits simultaneously met the DoD Study Group's objective but without the adverse effects. The DoD Study Group also recognized the substantial value of the military retirement survivor benefit legislation recently signed by the President; it is envisioned that 85 percent of all military retirees will participate in the improved plan.

Look for future additional COMMANDERS DIGEST issues on nondisability retirement.

Reallocation Result

The result of this reallocation of compensation resources would be increased flexibility in attracting and retaining selectively those members that are desired. As well, it will make available an acceptable payment to those members who must be separated prior to retirement or short of competing a full military career.

DoD is aware that the details of the revision outlined in this presentation are very complex. They are complex because of the efforts of the DoD Study Group to protect the individual presently on active duty. The majority of the complexity stems from the transition and save pay features; those features, at the same time, are the ones that are the most important for each individual to understand so that he can assure himself that the changes will not have an adverse effect on him.

SUBSEQUENT ACTION

***EXPLANATION OF THE EFFECT OF THE RECOMMENDATIONS WILL BE PROVIDED TO SERVICE MEMBERS**
***WORKSHEETS WILL BE FURNISHED TO SERVICE MEMBERS TO CALCULATE THE INDIVIDUAL EFFECT**
***LEGISLATION WILL BE FORWARDED TO THE CONGRESS NEXT SESSION**

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